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29 March 1954

MEMORANDUM FOR THE ACTING DIRECTOR OF CENTRAL
INTELLIGENCE

SUBJECT: Consequences in Iran of a Failure to Achieve
an Early Oil Settlement

1. The attached estimate of the Board of National Estimates was prepared in response to a requirement transmitted orally by [REDACTED]
2. Copies have been sent to the NSC Planning Board in connection with its review of NSC 5402 at 10:00 Wednesday, 31 March.
3. As the footnote indicates, the estimate was not coordinated with any IAC agency. Within CIA, representatives of the DD/P and AD/CI were consulted.

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SHERMAN KENT
Assistant Director
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CENTRAL INTELLIGENCE AGENCY

attachment to
AD/NE memo to DCI
29 March 1954

PROBABLE CONSEQUENCES IN IRAN OF FAILURE TO ACHIEVE AN
EARLY OIL SETTLEMENT *

1. In the long run, satisfactory solution of the oil problem is a prerequisite for continuing stability in Iran. Until substantial oil revenues are restored, the Iranian Government will be dependent on foreign subsidies not only for developmental outlays to meet growing popular demands for economic betterment but even for a substantial portion of regular government operating expenses. Iran's present moderate leadership has clearly recognized the overriding necessity of an oil settlement and has in effect staked its future on the hope that such a settlement will be forthcoming. In turn, popular and business confidence in the government is in large measure based on the expectation that the moderates can succeed where Mossadeq failed in deriving adequate benefits from Iran's oil resources.

2. Thus far the situation has developed favorably for the present leadership. With the aid of \$51 million in US emergency grants, Iran's treasury has been restored for the time being to

* This is an estimate prepared by the BOARD OF NATIONAL ESTIMATES of the CENTRAL INTELLIGENCE AGENCY. The estimate has not been approved for release by the CIA. Approved for release by the CIA on 2001/08/14. Approved for release by the CIA on 2001/08/14. Approved for release by the CIA on 2001/08/14.

reasonable order. Ultrationalist and Tudeh elements, the chief opposition to the government and its present policies, remain weak and divided, and the general public is at least passively aligned with the government. The new Majlis just elected is almost completely made up of government-supported candidates and under present circumstances can probably be prevailed on to ratify any oil settlement acceptable to the government and within the framework of the existing oil nationalization law.

3. However, the government's ability to maintain this favorable position depends in a considerable measure on its ability to obtain an early solution of the oil problem. The government now has a degree of control over internal affairs which it will find difficult to maintain. The Majlis, despite its hand-picked character, contains few men who can be fully relied on to stand by the government in event of difficulties, and the forces of latent nationalism remain strong.

4. Consequences of Delay in Achieving an Oil Settlement.

Even in the brief period remaining before present US emergency aid is exhausted in June, any undue delay in moving toward a settlement, by providing opportunities for irresponsible discussion of the oil question by the Majlis, might lead to a weakening of the government's will and ability to accept a realistic settlement.

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In the light of present Iranian expectations of an early settlement, such a delay would also encourage the ultranationalist and Tudeh opposition.

5. If US emergency aid were allowed to run out before a settlement had been reached or was immediately in prospect, Iran's present moderate leadership would be in serious trouble. The budgetary deficit now covered by US aid could be met only by deficit financing techniques which the Majlis would be reluctant to authorize and which if long continued would probably lead to a progressive weakening of Iran's financial stability. The withdrawal of US financial support would also seriously damage the government's morale and prestige, would lead to widespread popular discouragement about Iran's future, and would be likely to result in a resurgence of extremist pressures. Indeed, the failure to continue US budgetary aid to Iran would be looked on as indicating lack of US confidence in the Zahedi government. Zahedi would almost certainly have to resign, and while the Shah would probably be able to retain relatively moderate elements in power for several months or more he would probably find it increasingly difficult to do so. In the end it is likely that there would be a return to the chaotic conditions which prevailed under Mossadeq.

6. Even if US emergency aid were continued, prolonged delay in achieving an oil settlement would probably lead to a gradual

but progressive narrowing of the government's freedom of action in dealing with the oil question. Opposition elements would have further opportunities to criticize the settlement terms under negotiation, attack the UK and US, and ridicule the government's expectation that it could do business with them. Although the government would at first seek to avoid friction with the UK and US, it would become increasingly discouraged about the prospect for a settlement and would tend to become more and more bitter over the failure of AIOC and the other oil companies to provide a plan satisfactory to Iran and over US failure to compel them to do so. Eventually, the declining morale and prestige of the Iranian Government and the rising strength and vigor of the opposition might create a situation in which conclusion of any kind of a settlement would be impossible.

7. If it became apparent, as a result either of a clear-cut breakdown of negotiations or of cumulative delays and disappointments, that there was little or no real hope of a satisfactory settlement, the position of the moderate elements in Iran would be seriously weakened. If US emergency aid were continued, it would most likely enable the moderates to retain control at least initially, but Zahedi himself might have to be dropped as a scapegoat, and the ability of the moderates to retain some degree of popular support would be lessened. Moreover, without additional US economic assistance, the moderates would be unable to finance the economic

development activities with which they had planned to counter growing popular dissatisfaction with the status quo. Finally, failure to resolve the oil problem would result in growing uneasiness about Iran's future, particularly in the business community. Continuation of a month-to-month dole from the US would probably be increasingly ineffective in overcoming this uneasiness. Under these circumstances, there would be increased likelihood of a return to extreme nationalist governments in Iran.

8. Consequences of a Separate Oil Arrangement with the US.

If convinced that there was little chance of reaching a satisfactory settlement with the British, the Iranian Government would welcome and probably actively seek US assistance in marketing Iranian oil without British participation. Even assuming that such an arrangement could actually be made, its consequences would depend primarily on the extent to which Iranian oil revenues were actually restored.* Should this arrangement result in only limited restoration of Iranian oil revenues, the Iranians would probably tend increasingly to blame the US for having failed to put sufficient pressure on the British to secure a more adequate settlement.

* A US decision to assist Iran in marketing its oil without reference to the British would also have major repercussions on US-UK relations which are not considered in this paper.